



The Medicare and Medicaid Improvement Funds: Budgetary History and Projections

In 2008, lawmakers established the Medicare Improvement Fund and the Medicaid Improvement Fund. Since then, more than 30 laws adding or removing resources for the funds have been enacted. Medicare and the federal component of Medicaid are administered by the Centers for Medicare & Medicaid Services (CMS) within the Department of Health and Human Services (HHS). CMS has not spent money from either fund since their establishment.

Medicare is a federal health insurance program for people age 65 or older and for younger people with long-term disabilities or end-stage renal disease. The purpose of the Medicare Improvement Fund is to generally improve the original Medicare program (the parts that provide hospital and medical insurance, commonly known as Parts A and B), in ways that may include adjusting the amounts that Medicare pays to health care providers and suppliers. The fund has \$180 million available to spend for services furnished during and after 2022.

Medicaid is a joint federal-state program that covers acute and long-term health care for groups of low-income people, chiefly families with dependent children, elderly people (those age 65 or older), nonelderly people with disabilities, and—at the discretion of individual states—other non-elderly adults whose family income is up to 138 percent of the federal poverty guidelines. The Medicaid Improvement Fund was established to improve management of the Medicaid program in ways that may include oversight of contracts and contractors and evaluation of certain projects. It was expanded in recent years to support computer systems for processing health insurance claims. Currently, the fund has \$7 billion available to spend in 2028 and later.

The Congressional Budget Office periodically reviews federal spending on Medicare and Medicaid while preparing the federal budget projections (or baseline) that the agency uses to produce estimates of the budgetary effects of legislation (cost estimates). This Budget Spotlight describes features of the Medicare and Medicaid improvement funds and how the funds are accounted for in CBO's baseline and cost estimates.

Notes: Unless this report indicates otherwise, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. All amounts are in nominal dollars (in other words, not adjusted for inflation).

This brief is one of a series of reports examining trends in funding and spending for particular federal programs and how CBO accounts for those trends when preparing its baseline and cost estimates.

How Are Resources Provided to the Improvement Funds?

Legislation specifies how much is available to be spent from each fund. Outlays from the funds are classified as mandatory spending. The amounts spent from the Medicare Improvement Fund are to be drawn from Medicare's Hospital Insurance (HI) Trust Fund and its Supplementary Medical Insurance (SMI) Trust Fund. The amounts spent from the Medicaid Improvement Fund are to come from the general fund of the Treasury. To obligate any portion of the funds (in other words, to increase payment rates or take other actions that would result in outlays), the Secretary of HHS must determine that the available amounts are sufficient to cover the intended activity, and the Chief Actuary of CMS and the "appropriate budget officer" must certify that determination.

What Are the Authorized Uses of the Funds?

The original purpose of the Medicare fund was "to make improvements under the original [Medicare] fee-for-service program under parts A [Hospital Insurance] and B [Medical Insurance] for individuals entitled to, or enrolled for, benefits under part A or enrolled under part B."¹ The Congress has since amended the name and purpose of the fund several times; the last change to the purpose of the fund was made in October 2014. Today, the purpose is similar to that in the 2008 statute, but the permissible activities have been expanded to include "adjustments to payments for items and services furnished by providers of services and suppliers under such original Medicare fee-for-service program."² In other words, the funding may be used to make improvements to Medicare's hospital and medical insurance programs in ways that may include adjusting the amounts that Medicare pays to health care providers.

Originally, the Medicaid Improvement Fund was to be used to improve program management, conduct oversight of contracts and contractors, or evaluate demonstration projects (projects that explore new approaches on a small scale for potential wider use). The purpose of the fund was expanded by the HEALTHY KIDS Act (Public Law 115-120, division C), which added use for state activities relating to designing, developing, installing, or operating computer systems for

processing Medicaid claims electronically. Subsequently, the Continuing Appropriations Act, 2020, and Health Extenders Act of 2019 (P.L. 116-59) eliminated funding for the originally enacted goal of improving "the management of the Medicaid program by the Centers for Medicare & Medicaid Services, including oversight of contracts and contractors and evaluation of demonstration projects," although that goal remains part of the fund's statutory purpose.³

When Are Funds Available to Be Spent?

Legislation specifies when money can be spent from the funds. For both funds, that period of availability has often been well after the year in which the legislation making the funds available was enacted.⁴ For example, when the Medicare Improvement Fund was established in 2008, funds were available for services furnished during 2014. The length of time between the date of legislation and the year in which amounts in the Medicare Improvement Fund are first available has tended to decrease (see Figure 1). Not until enactment of the Consolidated Appropriations Act, 2021 (P.L. 116-260), in December 2020, were funds available for services performed in the then-current fiscal year. Currently, funds are available to the Medicare fund to be spent during and after 2022.

Likewise, funding for the Medicaid Improvement Fund has often been unavailable until after the year in which the enabling legislation was enacted (see Figure 2). That is true for both the funding available for the original statutory purpose (under 42 U.S.C. §1396w-1(b)(1)), referred to in this report as general funds, and the funding available for computer systems (under 42 U.S.C. §1396w-1(b)(3)(A)), referred to as additional funds.

When the fund was established in 2008, funds were available for 2014 through 2018. Not until 2023 was the year specified in the statute for the availability of the Medicaid Improvement Fund's general funds the current fiscal year; however, the amount currently designated is zero. In January 2018, when a separate category of funding was made available for state activities relating

1. Sec. 7002 of Supplemental Appropriations Act, 2008, Public Law 110-252, 122 Stat. 2323, 2394.

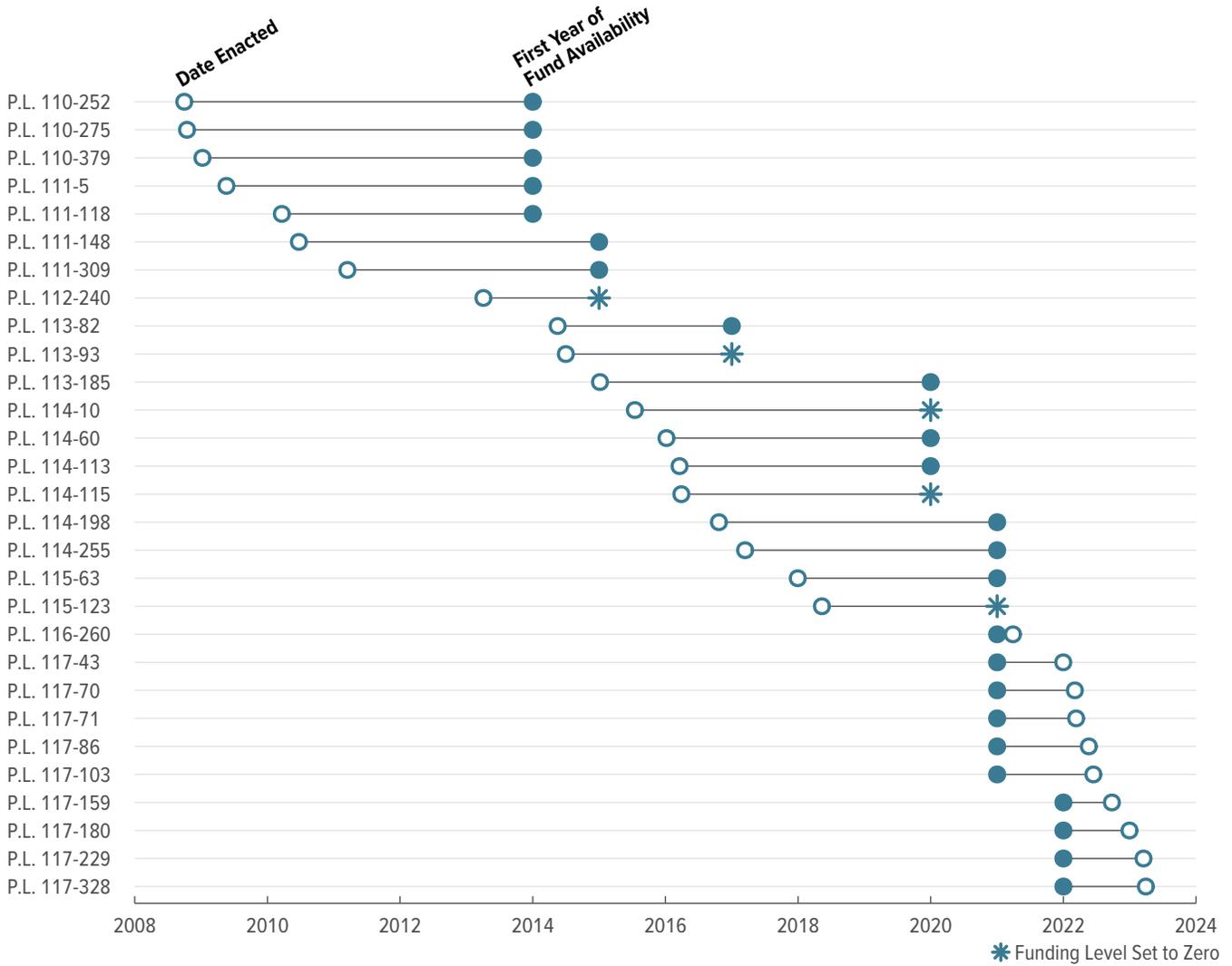
2. 42 U.S.C. §1395iii(a) (2018 & Supp.).

3. Sec. 7002(b) of Supplemental Appropriations Act, 2008, P.L. 110-252, 122 Stat. at 2395; 42 U.S.C. §1396w-1(a) (2018 & Supp.).

4. Since the establishment of the funds, CMS has had the authority to obligate the amounts in them before the period specified in law. 42 U.S.C. §1395iii(b)(3); 1396w-1(b)(2) (2018 & Supp.). The agency has never exercised that authority. This Budget Spotlight does not account for potential use of that authority.

Figure 1.

Date Funding Was Enacted for the Medicare Improvement Fund Versus Year Funds Were First Available, by Enacting Legislation



Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

The open circles show when legislation specifying funding for the fund was enacted. The solid circles show the first year in which the legislation made funds available for expenditure. Table 1 identifies the titles of all 29 laws. P.L. 111-148 set the funding for 2014 at zero but set a positive funding level for 2015. P.L. 111-309 reduced the funding level for 2015, and P.L. 112-240 set it to zero. Subsequently, P.L. 113-82 removed references to 2014 and 2015 and made funds available for 2017. Not until fiscal year 2021 was the year specified in the statute for the availability of funds in the Medicare Improvement Fund the current fiscal year.

to computer systems for processing insurance claims electronically, that additional funding was designated for availability in 2023 and thereafter. And when the Consolidated Appropriations Act, 2023 (P.L. 117-328), enacted in December 2022, made \$7 billion available for such purposes, availability of funds was delayed until 2028.

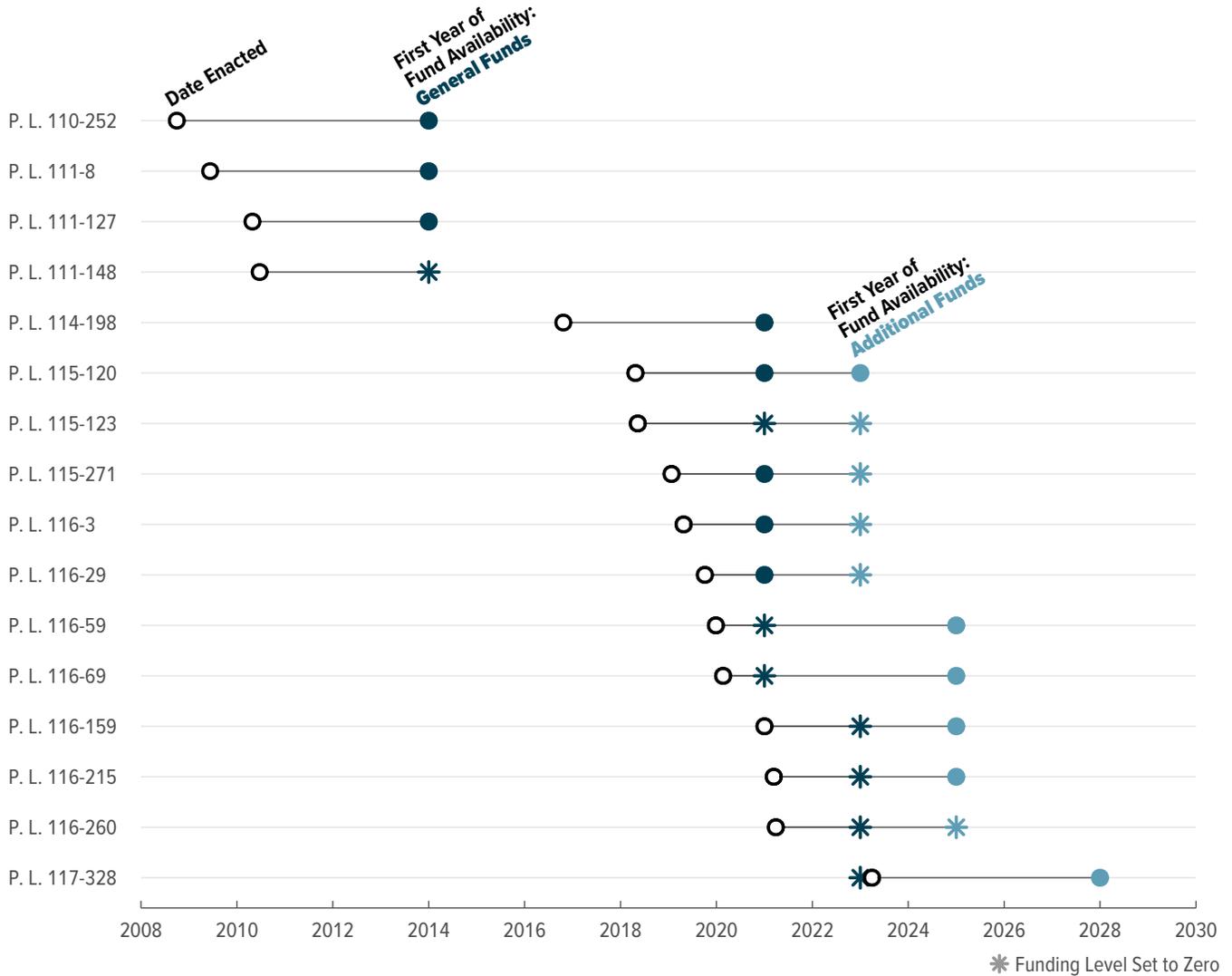
How Has Funding for the Medicare Improvement Fund Changed Over Time?

In 2008, \$2.2 billion was made available (to be drawn from the Medicare trust funds) to be spent by the Medicare Improvement Fund for services furnished during 2014. Since then, a positive amount of funding has been specified (typically for use in future years)



Figure 2.

Date Funding Was Enacted for the Medicaid Improvement Fund Versus Year Funds Were First Available, by Enacting Legislation and Type of Funds



Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

The open circles show when legislation specifying funding for the fund was enacted. The solid circles show the first year in which the legislation made funds available for expenditure. “General Funds” refers to funding available to the Medicaid Improvement Fund under 42 U.S.C. §1396w-1(b)(1) for improving program management, conducting oversight, or evaluating demonstration projects; “Additional Funds” refers to funding available under 42 U.S.C. §1396w-1(b)(3)(A) for state activities relating to computer systems for processing insurance claims; P.L. 115-120 was the first law to provide such funding. Not until fiscal year 2023 was the year specified in the statute for the availability of the general funds the current fiscal year; however, the current funding is zero. Table 2 identifies the titles of all 16 laws.

during some portion of all but two fiscal years. The amount of funding available has been changed 28 times since the fund was established. Specifically, lawmakers have increased the amount of funding available to the Medicare Improvement Fund 11 times and decreased it 17 times (see Table 1). The Medicare Improvements

for Patients and Providers Act of 2008 (P.L. 110–275) and the Patient Protection and Affordable Care Act (P.L. 111–148) enacted in 2010 made the largest changes, respectively increasing and decreasing the amount of available funding by approximately \$20 billion (see Figure 3).



Table 1.

Changes in the Amount of Funding for the Medicare Improvement Fund

Public Law	Title	Date Enacted	Millions of Dollars	
			Funding Amount	Change in Funding
110-252	Supplemental Appropriations Act, 2008	06/30/08	2,220	2,220
110-275	Medicare Improvements for Patients and Providers Act of 2008	07/15/08	22,120	19,900
110-379	QI Program Supplemental Funding Act of 2008	10/08/08	22,190	70
111-5	American Recovery and Reinvestment Act of 2009	02/17/09	22,290	100
111-118	Department of Defense Appropriations Act, 2010	12/19/09	21,290	-1,000
111-148	Patient Protection and Affordable Care Act	03/23/10	550	-20,740
111-309	Medicare and Medicaid Extenders Act of 2010	12/15/10	275	-275
112-240	American Taxpayer Relief Act of 2012	01/02/13	0	-275
113-82	An act to ensure that the reduced annual cost-of-living adjustment to the retired pay of members and former members of the Armed Forces under the age of 62 required by the Bipartisan Budget Act of 2013 will not apply to members or former members who first became members prior to January 1, 2014, and for other purposes	02/15/14	2,300	2,300
113-93	Protecting Access to Medicare Act of 2014	04/01/14	0	-2,300
113-185	IMPACT Act of 2014	10/06/14	195	195
114-10	Medicare Access and CHIP Reauthorization Act of 2015	04/16/15	0	-195
114-60	Protecting Affordable Coverage for Employees Act	10/07/15	205	205
114-113	Consolidated Appropriations Act, 2016	12/18/15	5	-200
114-115	Patient Access and Medicare Protection Act	12/28/15	0	-5
114-198	Comprehensive Addiction and Recovery Act of 2016	07/22/16	140	140
114-255	21st Century Cures Act	12/13/16	270	130
115-63	Disaster Tax Relief and Airport and Airway Extension Act of 2017	09/29/17	220	-50
115-123	Bipartisan Budget Act of 2018	02/09/18	0	-220
116-260	Consolidated Appropriations Act, 2021	12/27/20	165	165
117-43	Extending Government Funding and Delivering Emergency Assistance Act	09/30/21	69	-96
117-70	Further Extending Government Funding Act	12/03/21	56	-13
117-71	Protecting Medicare and American Farmers From Sequester Cuts Act	12/10/21	101	45
117-86	Further Additional Extending Government Funding Act	02/18/22	99	-2
117-103	Consolidated Appropriations Act, 2022	03/15/22	5	-94
117-159	Bipartisan Safer Communities Act	06/25/22	7,500	7,495
117-180	Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023	09/30/22	7,308	-192
117-229	Further Continuing Appropriations and Extensions Act, 2023	12/16/22	7,278	-30
117-328	Consolidated Appropriations Act, 2023	12/29/22	180	-7,098

Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

Amounts displayed reflect changes in total funding available to the fund as specified by legislation. They do not reflect delays to when funds are available for expenditure and are not adjusted for the effects of inflation.

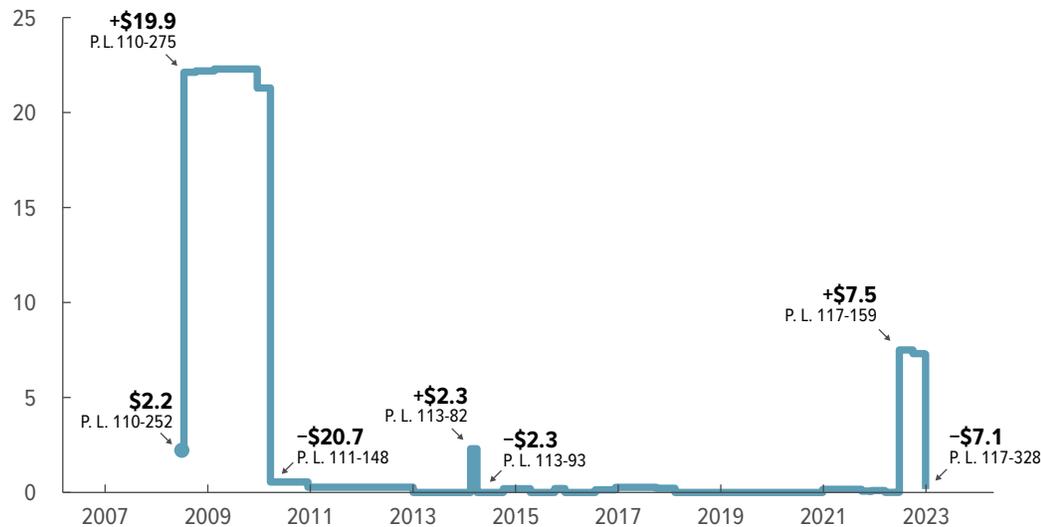
From its establishment in 2008 through March 2010, the amount in the Medicare fund ranged from \$2.2 billion to \$22.3 billion and averaged \$21.6 billion. From March 2010 through June 2022, funding averaged \$157 million. During two fiscal years in that period (2019 and 2020), no funding was available for

expenditure in any year. In June 2022, funding rose briefly from zero to \$7.5 billion before falling again in December of that year. As of the publication of this document, \$180 million is available to be drawn from the HI and SMI trust funds for improvement activities relating to Medicare services furnished during and after 2022.

Figure 3.

Funding Levels and Major Changes in Funding for the Medicare Improvement Fund

Billions of Dollars



Funding levels for the Medicare Improvement Fund have varied greatly. Funding has generally been less than \$500 million but has periodically been increased and decreased by billions of dollars.

Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

Funding levels and changes in funding levels displayed reflect total amounts made available to the fund by legislation. They do not reflect delays to when funds are available for expenditure and are not adjusted for the effects of inflation.

P.L. 110-252 = Supplemental Appropriations Act, 2008; P.L. 110-275 = Medicare Improvements for Patients and Providers Act of 2008; P.L. 111-148 = Patient Protection and Affordable Care Act; P.L. 113-82 = An act to ensure that the reduced annual cost-of-living adjustment to the retired pay of members and former members of the Armed Forces under the age of 62 required by the Bipartisan Budget Act of 2013 will not apply to members or former members who first became members prior to January 1, 2014, and for other purposes; P.L. 113-93 = Protecting Access to Medicare Act of 2014; P.L. 117-159 = Bipartisan Safer Communities Act; P.L. 117-328 = Consolidated Appropriations Act, 2023.

How Has Funding for the Medicaid Improvement Fund Changed Over Time?

The Medicaid Improvement Fund was established with \$250 million in initial funds—\$100 million available for expenditure in 2014 and \$150 million available for the period from 2015 through 2018. Since the fund's establishment, funding has been specified (typically for use in future years) during some portion of all but six fiscal years (2011 through 2015, and 2022) and the amount of funding available has been changed 15 times. Specifically, lawmakers have increased the amount of available funding 8 times and decreased it 7 times (see Table 2). The greatest changes stemmed from the Consolidated Appropriations Act, 2021 (P.L. 116–260), which decreased the amount of available funding by \$3.5 billion, and the Consolidated Appropriations Act, 2023 (P.L. 117–328), which increased funding by \$7.0 billion (see Figure 4).

Funding averaged \$512 million from 2008 to March 2010 and \$6 million from March 2010 to September 2019 (no funding was available during most of that period). Funding levels have varied between zero and \$7 billion since September 2019.

Have Outlays Been Made From Either Improvement Fund?

No funds have been spent by CMS from either improvement fund since their establishment in 2008.

How Does CBO's Baseline Account for Future Spending From the Improvement Funds?

CBO's baseline is a set of detailed projections of federal spending, revenues, deficits or surpluses, and debt for the current year and the decade that follows. Those projections inform policymakers about budgetary trends and the nation's fiscal condition under current law; they

Table 2.

Changes in the Amount of Funding for the Medicaid Improvement Fund

Public Law	Title	Date Enacted	Millions of Dollars	
			Funding Amount	Change in Funding
110-252	Supplemental Appropriations Act, 2008	06/30/08	250	250
111-8	Omnibus Appropriations Act, 2009	03/11/09	700	450
111-127	Emergency Aid to American Survivors of the Haiti Earthquake Act	01/27/10	610	-90
111-148	Patient Protection and Affordable Care Act	03/23/10	0	-610
114-198	Comprehensive Addiction and Recovery Act of 2016	07/22/16	5	5
115-120	Division C, HEALTHY KIDS Act	01/22/18	985	980
115-123	Bipartisan Budget Act of 2018	02/09/18	0	-985
115-271	SUPPORT for Patients and Communities Act	10/24/18	31	31
116-3	Medicaid Extenders Act of 2019	01/24/19	6	-25
116-29	An act to provide for a 2-week extension of the Medicaid community mental health services demonstration program, and for other purposes	07/05/19	1	-5
116-59	Continuing Appropriations Act, 2020, and Health Extenders Act of 2019	09/27/19	2,387	2,386
116-69	Further Continuing Appropriations Act, 2020, and Further Health Extenders Act of 2019	11/21/19	1,960	-427
116-159	Continuing Appropriations Act, 2021 and Other Extensions Act	10/01/20	3,446	1,486
116-215	Further Continuing Appropriations Act, 2021, and Other Extensions Act	12/11/20	3,464	18
116-260	Consolidated Appropriations Act, 2021	12/27/20	0	-3,464
117-328	Consolidated Appropriations Act, 2023	12/29/22	7,000	7,000

Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

Amounts displayed reflect changes in total funding available to the fund under 42 U.S.C. §1396w-1(b)(1) and 42 U.S.C. §1396w-1(b)(3)(A), as specified by legislation. They do not reflect delays to when funds are available for expenditure and are not adjusted for the effects of inflation.

are not meant to predict future outcomes, because they cannot account for future legislation.⁵ Rather, they are meant to provide a benchmark that policymakers can use to assess the potential effects of policy decisions. Most of the principles and rules that govern how the baseline is formulated are set in law, such as in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) and in the Congressional Budget Act of 1974 (P.L. 93-344).

If current law includes funding for the improvement funds, CBO's baseline projections of the Medicare and Medicaid programs reflect the assumption that funding will be spent on the purposes specified in law. CBO also projects that CMS would eventually spend

all the available funding—generally within five years of the initial year in which funding is first available. For example, in its February 2023 baseline, CBO included \$7 billion in spending from the Medicaid Improvement Fund, spread over the 2028–2031 period, because the Consolidated Appropriations Act, 2023, made \$7 billion available starting in 2028. CBO's projections of how quickly funds would be spent are based on the agency's analysis of how CMS has spent other funds provided for administrative activities.

How Does CBO Estimate the Budgetary Effects of Changes to the Improvement Funds?

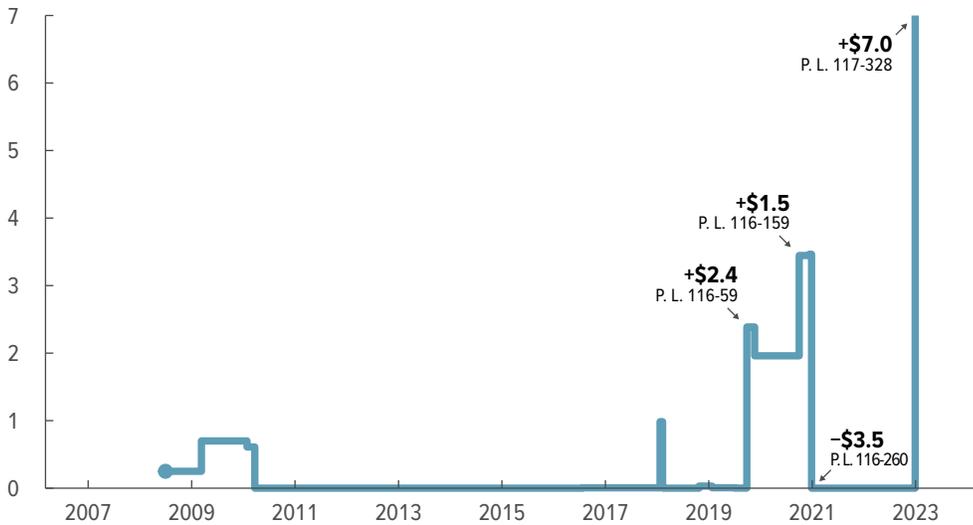
Because CBO assumes that CMS would eventually spend all the funding available in the improvement funds, the agency estimates that legislative proposals to reduce the available amounts would reduce the federal

5. Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), www.cbo.gov/publication/58916.

Figure 4.

Funding Levels and Major Changes in Funding for the Medicaid Improvement Fund

Billions of Dollars



Funding levels for the Medicaid Improvement Fund have varied greatly. Funding has frequently been zero and generally been less than \$1 billion.

Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

Funding levels and changes in funding levels displayed reflect total amounts available to the fund under 42 U.S.C. §1396w-1(b)(1) and 42 U.S.C. §1396w-1(b)(3)(A), as specified by legislation. Funding levels and changes do not reflect delays to when funds are available for expenditure and are not adjusted for the effects of inflation.

P.L. 116-59 = Continuing Appropriations Act, 2020, and Health Extenders Act of 2019; P.L. 116-159 = Continuing Appropriations Act, 2021 and Other Extensions Act; P.L. 116-260 = Consolidated Appropriations Act, 2021; P.L. 117-328 = Consolidated Appropriations Act, 2023.

budget deficit.⁶ Conversely, the agency estimates that proposals to increase the available amounts would

increase the deficit. (For examples, see Table 3, which focuses on CBO’s estimates for legislation enacted during calendar year 2022 that amended the amount of available funding for the improvement funds.)

6. Congressional Budget Office, *CBO Describes Its Cost-Estimating Process* (April 2023), www.cbo.gov/publication/59003.

Table 3.

Estimated Budgetary Effects of Legislation Amending the Medicare and Medicaid Improvement Funds During Calendar Year 2022

Public Law	Title	Date Enacted	Change in Millions of Dollars				Net Effect on the Deficit (Millions of dollars)
			Medicare Improvement Fund	Medicaid Improvement Fund	All Other Direct Spending	Revenues	
117-86	Further Additional Extending Government Funding Act ^a	02/18/22	-2	0	2	n.a.	0
117-103	Division P, Health Provisions, Consolidated Appropriations Act, 2022 ^b	03/15/22	-94	0	50	-44	0
117-159	Bipartisan Safer Communities Act ^c	06/25/22	7,495	0	-12,265	12	-4,782
117-180	Division D, Health and Human Services Extensions, Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023 ^d	09/30/22	-192	0	192	*	0
117-229	Division C, Health and Human Services, Further Continuing Appropriations and Extensions Act, 2023 ^e	12/16/22	-30	0	30	n.a.	0
117-328	Division FF, Health and Human Services, Consolidated Appropriations Act, 2023 ^f	12/29/22	-7,098	7,000	-8,289	821	-9,208

Data source: Congressional Budget Office. See www.cbo.gov/publication/59055#data.

n.a. = not applicable; * = between zero and \$500,000.

- a. See Congressional Budget Office, cost estimate for H.R. 6617, the Further Additional Extending Government Funding Act (February 7, 2022), www.cbo.gov/publication/57830.
- b. See Congressional Budget Office, cost estimate for H.R. 2471, the Consolidated Appropriations Act, 2022 (March 14, 2022), www.cbo.gov/publication/57928.
- c. See Congressional Budget Office, “Estimated Budgetary Effects of S. 2938, the Bipartisan Safer Communities Act” (June 22, 2022), www.cbo.gov/publication/58238.
- d. See Congressional Budget Office, cost estimate for Senate Amendment Number 5745 to H.R. 6833, the Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023 (September 28, 2022), www.cbo.gov/publication/58538.
- e. See Congressional Budget Office, “Estimated Discretionary Appropriations Under Division A of the Further Continuing Appropriations and Extensions Act, 2023” (December 14, 2022), www.cbo.gov/publication/58866.
- f. See Congressional Budget Office, “CBO Estimate for Divisions O Through MM of H.R. 2617, the Consolidated Appropriations Act, 2023” (January 12, 2023), www.cbo.gov/publication/58901.

This document was prepared to enhance the transparency of the work of the Congressional Budget Office. In keeping with CBO’s mandate to provide objective, impartial analysis, the document makes no recommendations.

Stuart Hammond and Russell Krupen wrote the document with major contributions and coordination from Ann E. Futrell and with guidance from Chad Chirico and Paul Masi. Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report. Lora Engdahl edited it, and Casey Labrack created the graphics and prepared the text for publication. This budget spotlight is available at www.cbo.gov/publication/59055.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.



Phillip L. Swagel
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